And Baby Makes Three

What to *Financially* Expect When You Are Expecting

So you're going to have or adopt a baby. Congratulations! Every member of our Pauley Financial team has children, and, without exception, we agree it's the most challenging yet best experience in our lives. While there are few moments that we may not echo that sentiment quite as enthusiastically *("You put the dead frog WHERE?"),* we personally understand there is nothing like children to bring into laser-focus, and action, our stated values – to include how we spend our money and time.

We've compiled a list of considerations to mull over as you are getting ready for baby. Fair warning: these may not be as fun as picking out the mobile, but we promise, they will have a far greater, lasting and rewarding impact.

Step One: Figure Out Your Company's Maternity Leave Policy

If your company has at least 50 full-time employees, it is required by law to offer 12 weeks of unpaid leave. It sounds crazy, but the United States doesn't require companies to provide paid parental leave. Some companies do offer it, however, as a benefit to their employees.

As soon as possible, sit down with someone from your human resources department and ask them to explain your company's maternity leave policies. Make sure to ask if temporary disability insurance (TDI) is available, whether you qualify, and what portion of your salary TDI pays. Make sure your partner does the same, and then compare notes.

Together you can decide how long each of you can afford or want to take off work after your baby arrives. This generally leads to Step Two.

Step Two: Explore Options for your Work Futures

Working full time and raising a family can be challenging. There are myriad financial and social choices to consider: Can you afford to leave your job? Do you want to leave your job? Who will care for the children? What about alternative work arrangements (part-time, tele-commuting, self-employment)? When are some of the most important times/ages to have a parent at home with the children? How will your health insurance be effected?

Most people have already begun to come up with solutions that are "right" for their new family long before the baby arrives. These decisions encourage us to re-evaluate our goals and priorities. Be peaceful knowing that the decisions you make now will likely change over the years as you grow into your new family. This is the essence of finding *your right balance* between living for today and reaching your goals for tomorrow.

Step Three: Reassess your Cash Flow Plan

This step can range from deciding what brand of baby food to buy (or make), all the way to new homes, private schools, school districts, child-care and college savings for the little one. Suffice it to say that the tendency is for children to become more expensive along the way. The most commonly touted "average number" for raising a child in the United States as most recently reported by the Department of Agriculture is just under *one quarter of one million dollars* ($245,340 to be exact). That number could easily also be *just* the cost of their undergraduate college education (see private college tuition rates).

What matters most at this stage though is assessing your expected income, expected expenses and longer term financial goals to see if you are on a path to be able to achieve what you hope. If not, it's a great time to make some tweaks to your plan while you are still young and have time on your side. Be sure to take into account the book-ends of your emergency fund and your retirement savings when looking at your cash flow plan.

Know also that your new arrival will afford possible tax-advantaged opportunities that were not likely not available to you prior to having children. These can range from a dependent care account (see your human resource department to inquire if such a benefit is available), to possible tax credits or deductions. If your household income changes significantly because one parent is not returning to work, different income thresh-holds in the tax code can provide further opportunity as well. It is best to consult with a tax preparer and a financial advisor to coordinate and maximize any options you may have available.

Step Four: Review your Insurance Needs

You'll incur high medical expenses during the pregnancy and delivery, so check the maternity coverage that your health insurance offers. And, of course, you'll have another person to insure after the birth. Good medical coverage for your baby is critical, because trips to the pediatrician, prescriptions, and other health-care costs can really add up over time. Fortunately, adding your baby to your employer-sponsored health plan or your own private plan is usually not a problem. Just ask your employer or insurer what you need to do (and when, usually within 30 days of birth or adoption) to make sure your baby will be covered from the moment of birth. An employer-sponsored plan (if available) is often the best way to insure your baby, because these plans typically provide good coverage at a lower cost. But expect additional premiums and out-of-pocket costs (such as co-payments) after adding your baby to any health plan.

It's also time to assess or re-asses your life insurance. Though it's unlikely that you'll die prematurely, most of us will sleep better at night knowing that our family will be taken care of in this circumstance. Your spouse can use the death benefit to pay off debts (e.g., a mortgage, car loan, credit cards), support your child, hire child care and meet other expenses. Typically, a guaranteed premium term policy is a good option – the trick is determining how much insurance you need – *not what an insurance agent wants to sell you.*

Step Five: Update your Estate Plan

With a new baby to think about, you and your spouse should consider updating your wills (or prepare wills, if you haven't already) that are specific to your state of residence. You'll need to address what will happen if an unexpected tragedy strikes. Who would be the best person to raise your child if you and your spouse died at the same time? If the person you choose accepts this responsibility, you'll need to designate him or her in your wills as your minor child's legal guardian. You should also name a contingent guardian, in case the primary guardian is not able to fulfill that duty. Guardianship typically involves managing money and other assets that you leave your minor child. You may also want to ask your attorney about setting up a trust for your child and naming trustees separate from the suggested guardians.

While working with your attorney, you and your spouse should also complete a health-care proxy and durable power of attorney. These documents allow you to designate someone to act on your behalf for medical and financial decisions if you should become incapacitated.

Step Six: Start Saving for your Little One's Education

The price of a college education is high and keeps getting higher. By the time your baby is college-bound, the annual cost of college could be almost triple what it is today. Setting up a college savings account (there are different tax advantaged choices) is often a wise move. You can also suggest that family members who want to give gifts could contribute directly to this account. Start as soon as possible (it's never too early), and save as much as your cash flow plan permits. (See Step Three above)

One of the common mistakes new parents make, however, is making contributions to a college savings plan without first funding their own retirement plan. There are many ways to pay for college (scholarships, work-study, loans, grants, etc). There are few ways to finance retirement. Most of our kids won't want us moving in with them during our golden years, so looking at your overall financial plan as you consider college savings contributions is the right place to start.